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Real Estate Economists, Appraisers and Counselors

CHARACTERISTICS OF REGIONAL SHOPPING CENTERS

WE have just completed the tabulation of the results of a recent survey concerning certain phases of shopping center planning and operation. The response to this survey was so good that future surveys in the field are anticipated. The results of the survey that will be included in this bulletin are on those centers having at least 100,000 square feet of department store space. We believe that this is the minimum amount of department store space that can be included in a regional type center. In order for a center to be classified as regional, we believe it should serve a trade area in excess of 100,000 persons. This bulletin should not be considered all-inclusive nor completely comprehensive. We have told our clients that individual studies should be made of their proposed centers and the characteristics of the market before proceeding with their development.

SIZE OF CENTER

The average size of the shopping center included in this report was 45 acres. From the returns, it is obvious that the newer centers are of greater size than the older ones. Formerly, 20 acres was considered a fair sized tract for this purpose, while today, 40 acres is generally conceded to be the smallest possible amount of ground on which it is desirable to develop a regional center. In addition to the larger sizes actually included in the centers, more developers have additional ground available adjacent to the center for future expansion. We believe this is a very wise move. Not long ago developers believed they had to locate in an area that was fairly well developed. Bare land was relatively high priced. Today, developers of regional shopping centers realize that the advertising and general acceptance of the large department stores and national chain stores will attract clients for many miles. As a result they feel that they can go from the highly developed areas to those that are more remote, but still accessible to a large percentage of the market. Because of the possibility of utilizing more remote sites, they are able to buy land considerably cheaper, and in turn can afford to invest in larger tracts.

Practically all of the shopping centers surveyed have public transportation facilities. The newer and more remote centers have less public transportation service, and as a result more and more space must be provided for the automobile shoppers.

PARKING

Before discussing the subject of parking and parking ratios, it is necessary to define some of the terms that will be used in this bulletin.

PARKING AREA is the gross area included for actual parking, aisles, drives or roadways, and landscaped strips within the general parking area. **TOTAL FLOOR AREA** includes all space generally subject to rental on all floors, including the basement, regardless of its use. It is sometimes referred to as gross floor space. **RETAIL SPACE** is the area of the stores used for sales purposes. **PARKING RATIO** is the ratio between parking area and total floor area. A parking ratio of 3:1 would indicate that there were 3 square feet of parking facilities available for each square foot of total floor area. This parking ratio is more appropriately expressed in terms of the number of actual car spaces provided in the parking facilities for each 1,000 square feet of total floor area.

The amount of parking required by any center depends on a multitude of factors, including the adequacy of public transportation and its resultant walk-in trade, the relationship between total floor area and retail space, the turnover of cars in the parking area and the number of persons occupying each car, as well as many other lesser factors. It was not long ago that a 2:1 parking ratio was deemed adequate. Today, however, for planning purposes, a 4:1 ratio is generally considered. One of the reasons for the increase in the parking ratio has been the over-night success of the shopping center program. Another is the constantly increasing size of the cars being served. Still another point has been the attempt by developers to make their large parking lots more attractive by adding landscaping features.

Three hundred square feet of parking per car was generally considered adequate to provide for the individual car space and access drives. Today, however, most planners agree that 400 square feet per car space is desired. The parking pattern employed in the center will have a great deal to do with the amount of space required for each car. Angular parking is more desirable when ease of access is considered. When cars are parked at a 45° angle the ease of access is greater than at 60°, but the overall efficiency of the parking area is reduced. As cars become longer, angular parking becomes more advantageous. For further information on parking refer to our Appraisal Bulletin, "Planning Suburban Shopping Centers," Volume XX, Number 10, pages 93 to 105.

For the regional type center surveyed the average amount of parking area per car amounted to 330 square feet. This is somewhat higher than the figure in previous studies that we have made. We believe that, unless a center has provisions for the future expansion of its parking space, at least 350 square feet should be provided for each car. Well-informed planners recommend as high as 400 square feet per car. We believe that this amount will be adequate for any conditions that can be anticipated in the foreseeable future.

Our survey revealed that 70% of the total floor area included in the center, exclusive of department store space, was sales space, and 75% of the department

store space was sales space. A weighted average showed that 72% of the total floor space was used for retailing. This means that 720 square feet out of every thousand square feet of total floor area was used for retail purposes.

We believe that it is much more accurate to base the customer parking requirements on the amount of retail space that generates this demand, rather than on the total floor area in the center. For that reason we are showing, in tabular form below, the number of parking spaces that can be provided for each thousand square feet of retail space using a 3:1 parking ratio and a 4:1 parking ratio on the basis of the survey just completed (330 square feet per car), the recommended future minimum of 350 square feet per car, and on the adequate basis of 400 square feet per car.

	3:1 ratio	4:1 ratio
Existing (330 sq. ft. per car)	12.6	16.8
Minimum recommended (350 sq. ft.)	11.9	15.8
Adequate (400 sq. ft. per car)	10.4	13.9

The questionnaire that we sent out contained three questions: What is the existing parking ratio of your center? How many square feet of parking space does it have? What is its total store space? We verified the actual parking ratio and found that in many instances the operators of shopping centers are dwelling under the misconception that they have a higher parking ratio than they actually have. Almost 65% of the regional shopping centers reporting stated that their existing parking was insufficient. The average parking ratio of those reporting was 2.8:1, or 8.6 cars per thousand square feet of total floor area. We fully realize that it is impractical to provide adequate space to handle the pre-Christmas shopping crowds, but we do believe from experience that a 3:1 parking ratio will soon be inadequate. Great care should be exercised in laying out the center to get the parking demand as evenly balanced as possible. Generally, major supermarkets in a center should be widely separated in order that their peak demands will not interfere with each other. Food stores and many other convenience goods outlets have a much greater parking demand than do department stores. Furthermore, the food markets have a much greater turnover, which creates traffic congestion. Consequently, it is better to keep supermarkets separated from the department store and specialty shops. Another reason for this segregation is the fact that the shopper, for convenience goods, generally does not dress up as well as she does when shopping for other than convenience goods.

RATIO OF DEPARTMENT STORE SPACE TO TOTAL SPACE

Of the centers having department store space in excess of 100,000 square feet, department store space averaged 41.5% of total store space. The median was 43.5% with a range varying from 27 to 56%. We believe that 40 to 50% of the total retail space is an ideal amount for department store occupancy. If there is more than one major department store in a regional center, it is our opinion that the

percentage of department store space could tend to the higher side, while if only one major department store is in the center, probably 40% department store space would be more appropriate.

DINING SERVICE IN THE DEPARTMENT STORE

Of the department stores included in the survey, approximately 50% had a dining room. Most of them that did not have a dining room had fountain service. We believe that an individual study should be made to determine whether a dining room in a department store in a regional shopping center is desirable. One of the important factors that influence the decision is that competing restaurants are provided in the center. The number of nights the department store will be open is another factor. It is difficult to have a successful restaurant operation when the dining room serves but one meal a day. If the center is to be open only two evenings a week, it will be difficult to compete with a restaurant that is open daily, serving three meals and late snacks. The full-time restaurant operation can charge its fixed expenses over 21 meals a week, while the same fixed expenses would have to be charged off on a department store that is open but two nights a week on the basis of eight meals. Furthermore, a restaurant operation to be competitive and successful, generally requires ownership-management.

DEPARTMENT STORE OCCUPANCY SALES

Department stores in regional shopping centers have enjoyed an excellent bargaining position in the past, and we see little possibility of any material change along the line in the immediate future. Department stores and developers of regional centers are conversant with the fact that the department store is the center's main attraction. It attracts customers because of its tremendous advertising and its general acceptance. The developers realize that they cannot have a regional center without at least one major department store. Consequently, every piece of land desirable for shopping centers in an area requiring such a center is a potential site. Promoters and developers of each tract are eager to get the leading department store in their proposed center. Because of the relatively great supply of sites and the limited demand, the department store owners have been able to secure very advantageous leases.

Of the department stores included in the survey, the average department store rental amounted to 2.5% of gross sales. The lowest percentage lease was on a 2% basis, and the greatest amounted to 3%. It should be noted that the majority of the 2.5% leases were negotiated several years ago, while some of the more recent leases were on the 3% basis. However, some recent leases were reported on a 2.5% basis.

The minimum annual guarantee per square foot generally was based on the percentage rental applied to \$50 per square foot gross business per year. This would result in an average minimum rental of \$1.25 per square foot. In some instances the minimum was based on a percentage of the construction cost of the

department store. This minimum rental is entirely too low to guarantee debt service charges, taxes, and operating expenses, much less pay any return to the developer on his time, effort, and equity. Nevertheless, the developers anticipate a high return on the space leased to the small independent merchants located in their centers. In addition, it is not unreasonable to assume that, after the first year, the department store will pay excess rental or rental above this minimum guarantee because of greater average sales per square foot. As a consequence, the department stores are still offered the rental subsidies in order to grace a tract with their presence and make the relatively worthless site a valuable regional shopping center.

To add to the plight of the developer, mortgage lending institutions when financing centers not only insist on good department stores in the center but also require that at least 50% of the other store space be under lease to national chains having top credit ratings. As a result the national chains also have the developer over the proverbial barrel. Fortunately, in this instance there are more national chains seeking space than there are department stores and, as a result, the developer does not have to make subsidy concessions that he is generally required to make to the department stores.

Local merchants, and particularly independents generally, have to pay the going rate, as the developer generally chooses these tenants with a great deal of care. The developer can be selective, particularly after he has overcome the hurdles of securing the department store and the national chains which will guarantee his financial requirements.

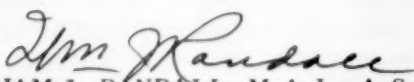
The length of the lease to the department store in the instances surveyed ranged from 15 to 50 years. The 25-year lease term is the median with a 20-year renewal term. This 20-year renewal term is frequently in the form of two 10-year renewal options.

At the present time of tight money, developers are attempting to reduce the subsidy that the department stores have generally been able to demand by attempting to interest the department store in financial participation in the center. Generally the participation is on the basis that the developer provides the land without charge to the department store, and the department store in turn builds and finances its own structure in conformance with the general plan of the center. It is our opinion that, in the long run, the developer is better off if he can secure a 3% rental from the department store and assume the entire construction obligation. However, since financing is practically always of paramount importance, the developer may feel that he is better off not assuming the financial liability that is involved when a department store is included in his mortgage arrangements.

This is particularly true when the developer of the center requires a mortgage to cover in excess of 75% of his costs, excluding the cost of his own time and energy. By the elimination of the costs of constructing the department store unit, his minimum annual rental per square foot subsidy would not appear on the insur-

ance company appraiser's operating statement. Consequently, with the subsidy to a department store eliminated and the minimum rentals of the national chains sufficient to carry their own portion of the mortgage service charge and operating expenses, better financing terms could be negotiated with the lending agency. Consequently, the guaranteed minimum rentals on the center would probably cover not only the debt service and operating expenses, but also show a return adequate to pay for the developer's expense, a return on his equity and protection against contingencies.

In later bulletins we will discuss the findings regarding the smaller shopping centers and other pertinent information.


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